

Filling Out the FAFSA

CHAPTER 2

The FAFSA is the first step in the financial aid process. Because it's important to complete the form correctly, this chapter discusses some of the more difficult questions that arise. While the chapter more closely follows the organization of the paper application, the guidance applies equally to FAFSA on the WebSM (FOTW[®]). To see how FAFSA data are used to calculate the expected family contribution, refer to Chapter 3.

The FAFSA is organized as steps, each consisting of a group of related questions. There are also instructions on how to fill out the form.

As of the date the FAFSA is signed, it is considered a “snapshot” of the family’s information that can be updated only in certain circumstances and only for certain items; see *Chapter 4*.

The guidance in this chapter supplements the application instructions. Students can get similar advice on filling out the FAFSA online at www.studentaid.ed.gov. The parents mentioned are those of dependent students. The numbers in parentheses are for the items as they appear on the SAR, ISIR, paper FAFSA, and FAA Access.

STEP ONE: GENERAL STUDENT INFORMATION

Purpose: This step identifies the student and establishes his aid eligibility based on factors such as citizenship, educational level, and Selective Service registration (see also *Volume 1: Student Eligibility*). Some questions are included to help the school package awards and to eliminate the need for students to fill out a separate state or school financial aid form.

- **Student’s name (1–3).** The name, along with other identifying information, is used for several data matches. Because the U.S. Department of Education (ED) matches the student’s name and Social Security number (SSN) with the Social Security Administration (SSA), the name here should match the one in the SSA’s records, i.e., as it appears on the student’s Social Security card.
- **Permanent mailing address (4–7).** This cannot be the school address, with two exceptions: an incarcerated student or homeless youth may use his college’s administrative address and, if he is submitting a paper FAFSA, he will include with it a letter from the school indicating that he is incarcerated or homeless and is using the school’s address. If he is applying on the Web, he should send the letter to the FAFSA processor (the same address to which a paper FAFSA is sent) and be sure that it contains his SSN.

Paper FAFSA steps

Step One—General student information

Step Two—Student/spouse income and assets

Step Three—Dependency status

Step Four—Parents’ information (dependent students only)

Step Five—Independent student data

Step Six—School information

Step Seven—Signature(s)

Completing the FAFSA

Information for students is online at www.studentaid.ed.gov/resources. You may want to link to this reference from pages that students use on your website. Scroll down the page for the *Completing the FAFSA* brochure. You can also download FAFSA on the Web graphics to use on your website: <http://studentaid.ed.gov/about/link>.

STEP 1

Questions 8–23

Student information

The SSN and certain Pacific island residents

Persons from the Republic of the Marshall Islands, the Federated States of Micronesia, or the Republic of Palau (the Freely Associated States or FAS) typically do not have SSNs. Students who are filling out a FAFSA for the first time and who indicate that their state of legal residence is one of the above Pacific island groups should enter “666” for the first three digits of their SSN, and the CPS will assign them an identification number. Students from the FAS who have submitted a FAFSA before and were issued such a pseudo-SSN will enter it in the SSN field. **It is important that they use the same number on all subsequent FAFSAs** because it allows for more accurate information on Pell Grant lifetime eligibility used. See the relevant electronic announcements from October 7, 2011, and November 20, 2013.

Same-sex marriage and the FAFSA

In 2013, in *United States v. Windsor*, the Supreme Court ruled that Section 3 of the Defense of Marriage Act (DOMA) was unconstitutional because it violates the principles of due process and equal protection. As a result, same-sex couples who have married in a domestic or foreign jurisdiction that recognizes the marriage should complete the FAFSA as a married couple regardless of whether the jurisdiction in which they reside or the student attends school recognizes the marriage. This applies to independent students and to the parents of dependent students. It also includes those filling out a 2013–2014 FAFSA for the first time.

Those who previously submitted a 2013–2014 FAFSA and were married at the time but did not, because of DOMA, fill out the application as married, may, if they choose, correct that FAFSA to show they are married and to include all the relevant information. If they married after signing the 2013–2014 FAFSA, the normal rules for updating marital status explained on page 89 apply. See DCL GEN-13-25 for more information.

- **Student’s SSN (8).** With the exception noted in the margin, a student must have an SSN to apply for federal student aid. If she submits a FAFSA without an SSN, the FAFSA will be returned to her unprocessed. To get an SSN or to determine what the number is if the Social Security card was lost, she must contact the local Social Security Administration (SSA) office. Call the SSA at 1-800-772-1213 (TTY: 1-800-325-0778) for more information.

The student should be careful when entering her SSN. Although it can be corrected after the FAFSA is processed, the number originally entered will always be used as her ID, and it is likely to cause confusion and extra work for the financial aid administrator if it doesn’t match the student’s SSN. While not required, the student can solve the confusion by filing a new original FAFSA using the correct SSN.

- **Student’s e-mail address (13).** If the student provides this address, he should get an e-mail with a link to his online SAR data within one to three days after the CPS receives his application. The Department will also use this e-mail address to correspond with him regarding his application and PIN.
- **Citizenship status (14).** Examples of noncitizenship categories are given in the FAFSA instructions, and a detailed discussion of citizenship issues can be found in *Volume 1: Student Eligibility*. Only citizens or certain classes of noncitizens are eligible for Title IV aid; however, a student should still submit the FAFSA if she might be eligible for aid from institutional, state, or private sources that do not require U.S. citizenship.
- **Student’s marital status (16 and 17).** This is marital status “as of today”—the day the application is signed. Marital status cannot be projected. It can be updated in limited circumstances; see *Chapter 4*.
- **Student’s state and date of legal residence (18–20).** This information is used in the EFC calculation to determine the appropriate allowance for state and other taxes.

It also indicates which state agency should receive the student’s FAFSA information. States have varying criteria for determining whether the student is a resident for purposes of their financial aid. However, residing in one state for four years will meet any state’s criteria. Therefore, a person answering “Yes” to Question 19 will likely meet the residency requirements of the state reported in Question 18, while the state eligibility for a person answering “No” will depend on the date reported in Question 20 and the state’s requirements.

- **Conviction for possessing or selling illegal drugs (23).** Students convicted of a federal or state offense of selling or possessing illegal drugs that occurred while they were receiving federal student aid should still complete and submit the FAFSA because they may be eligible for federal aid, and even if they aren’t, they may be eligible for state or institutional aid.

Students who fill out their FAFSA online and answer “Yes” to Question 23 will immediately receive a series of questions to determine their eligibility.

Students who fill out a paper FAFSA and answer “Yes” to this question will receive a worksheet with their SAR to determine whether the conviction affects their eligibility for federal student aid. If the date they regain eligibility falls before July 1, 2014, the worksheet will instruct them to change the response to a “1,” indicating full eligibility for the award year. If the date falls between July 1, 2014, and June 30, 2015, they will not be eligible for part of the award year and will need to change the response to a “2.”

If the date falls after June 30, 2015, the students’ response will remain a “3.” They will not be eligible for federal aid during the entire award year unless they complete a qualified drug rehabilitation program or pass two unannounced drug tests given by such a program. See *Volume 1: Student Eligibility* for more information.

Students who leave Question 23 blank cannot be paid Title IV aid until they respond by submitting a corrected SAR or ISIR.

- **Highest level of school completed by student’s parents (24 and 25).** Some state agencies use this information to award grants and scholarships. Father and mother are defined here as the student’s birth or adoptive parents but not stepparents, guardians, or foster parents. This definition is unique to these questions—all others use the definition on page 27.
- **High school completion status (26).** The student indicates whether he has a high school diploma or General Educational Development (GED) certificate, he passed a state equivalent test, he was homeschooled, or none of these apply. The last category includes those who have the equivalent of a high school diploma (see *Volume 1, Chapter 1*, of the FSA Handbook) other than a GED certificate or state test completion. State test includes tests comparable to the GED (*i.e.*, they are created and distributed by a test publisher and approved by states), such as the High School Equivalency Test or the Test Assessing Secondary Completion, as well as those established by states, for example, the California High School Proficiency Exam (CHSPE); California considers a passing grade on the CHSPE to be equivalent to a diploma.
- **High school (27).** This question asks for the name of the high school where the student received or will receive her diploma, as well as the city and state where it is located. On FAFSA on the Web, the student will be able to choose the name from a list or type in the name if the school is not on the list. See *Volume 1* of the Handbook about checking the validity of a high school education.
- **First bachelor’s degree (28).** The student indicates whether he will have a first bachelor’s degree before July 1, 2014, because eligibility for Pell and Federal Supplemental Educational Opportunity grants

STEP 1

Questions 23–28

Student information

Undergraduate student definition

A student who is enrolled in a program that usually does not exceed four academic years or is enrolled in a longer program designed to lead to a first degree at the baccalaureate level. A student enrolled in a program that is longer than five years is considered an undergraduate for only the first four years.

For the FSEOG, Pell, and TEACH Grant programs, a student is an undergraduate only if he has not earned, or completed the requirements for, a bachelor’s or professional degree. Students enrolled in a postbaccalaureate program as described in 34 CFR 686.2(d) and 690.6 are still undergraduates for receiving TEACH and Pell grants.

Students enrolled in dual degree programs that confer a bachelor’s degree and either a graduate or first professional degree are undergraduates for at least the first three years of the program. The school determines at what point after three years the student ceases to be an undergraduate.

34 CFR 668.2(b)

Graduate or professional student definition

A graduate student is one who: is not receiving aid as an undergraduate for the same period of enrollment; is enrolled in a program above the bachelor’s degree level or one leading to a professional degree; and has completed the equivalent of at least three years of full-time study, either before entrance into the program or as part of it.

34 CFR 668.2(b)

STEPS 2 & 4

Questions 29–35 and 80–83

Grade level, tax return, and filing status

Income and assets

HEA Sec. 480(a), (b), (f), (g)

Income earned from work and the IRS 1040 form

The FAFSA instructs the applicant to sum lines 7, 12, and 18 of the 1040 form and box 14 [code A] of Schedule K-1 (Form 1065) as an option for determining the income earned from work. But when the values of lines 12 or 18 or box 14 are negative, this will reduce the total and can wrongly affect the Social Security allowance. If values from lines 12 or 18 or box 14 are negative, treat them as zero when determining the income earned from work.

Income earned from work and combat pay

Because combat pay is not counted as untaxed income and is removed from the AGI when it is taxable, it should not be included in the income earned from work.

EFA or not?

Sometimes it is difficult to account for an outside financial award. If a student receives the award because of post-secondary enrollment, it counts as estimated financial assistance (EFA) if it is not considered wages for employment according to federal or state rules, or if it is considered wages and is based on need. Any amount that appears as income on the tax return will also be included on the appropriate line of item 44 or 93 on the FAFSA. If the award is considered wages for employment but is not based on need, then it is not EFA and it remains in income.

(FSEOGs) is almost exclusively restricted to students who have not received a bachelor's degree or completed the requirements for one. See "Pell Grants" in *Chapter 6 of Volume 1: Student Eligibility* regarding degrees from unaccredited and foreign schools, which can count as bachelor's degrees for Pell and FSEOG eligibility.

- **Student's grade level at the start of the school year (29).** This is not based on the number of years the student has attended college but on work completed toward the degree/certificate. For instance, a full-time student might attain second-year grade level after one year of study, while a half-time student would take two years to reach that level.
- **Interest in work-study (31).** The student indicates whether she is interested in receiving Federal Work-Study (FWS). This helps the school in packaging her award. If she isn't sure about wanting FWS, she should answer "don't know" so she will be considered for it; later she can decline any aid she doesn't want.

STEPS TWO AND FOUR: INCOME AND ASSETS

Purpose: Questions 32–44 ask for the student's and spouse's income and assets. Step Four collects similar information about parents' income and assets, so the following discussion also pertains to parents.

If the student or her parent wasn't married in 2013 but is married when the application is signed, the student also needs to provide income and asset information for the new spouse. If the student or her parent was married in 2013 but is separated or divorced or the spouse has died when the application is signed, the student or parent doesn't provide income and assets for that spouse even though the information may be on the 2013 tax forms.

The FAFSA asks for income and taxes paid according to lines on the IRS tax forms for 2013, the "base year" for 2014–2015. Data from the completed tax year is used as a predictor of the family's financial situation for the current year. If 2013 tax data is not available yet, best estimates can be used on the application, though the student is asked to correct them later when the tax return is filed.

The FAFSA also collects information for certain investments and other assets. Applicants only report the net worth of assets instead of reporting the value and debt. They should report asset amounts **as of the date the application is signed**.

- **Tax return filed and tax filing status (32–35, 80–83 for parents).** These questions ask if a 2013 tax return was completed, which return was or will be filed, what the filing status was or will be (new for 2014–2015), and whether the student or parents were eligible to file a 1040A or 1040EZ. This information is used in part to identify if the student is eligible for the simplified needs test or the auto zero EFC (see the margin note on page 17) and to identify inconsistencies between the FAFSA and the tax return.

- **Adjusted gross income (AGI) and other tax data (36–40, 85–89 for parents).** Dependent students report these items for their parents. Each question gives the line reference to the 2013 IRS tax forms, so it will be easier to enter the **income and tax paid** if the tax return has been completed. A student can instead estimate answers, but if the estimated information is wrong, she might have to correct it when the tax return is filed. The worksheet on page 16 can help students estimate their tax information.

The **IRS Data Retrieval Tool (DRT)** allows students and parents who are using FAFSA on the Web and who have already submitted their federal tax return to electronically retrieve their tax data from the IRS database. The ISIR will show that data was imported and if it was altered. All students and parents of dependent students who indicate on the application that they have already filed a federal tax return and who are otherwise eligible to use the DRT will be directed to do so. Students and parents are strongly encouraged to make use of the DRT (though it is voluntary) because it is accurate, efficient, and useful for verification and corrections; see the relevant chapters in this guide.

Students or parents who filed a joint return but are divorced, separated, or widowed when the application is signed won't be able to copy the information from the tax forms or transfer data with the DRT. Instead, they must figure out how much of the income and taxes paid is attributable to them and not their spouse. For more on this calculation, see "Using a joint return to figure individual AGI and taxes paid" in *Chapter 4*.

If the student, spouse, or parents were not required to file a tax return, the student should still report any **income earned from work** in lines 39–40 (student and spouse) and lines 88–89 (parents). The W-2 form and other records of work earnings should be used to determine these amounts. Do not include combat pay (see the margin note on page 14).

Income earned from work is used to calculate allowances for the Social Security and Medicare tax (aka the Federal Insurance Contributions Act or FICA tax) and for the added costs incurred by working families. For non-taxfilers it will also be used in place of AGI and will cause the application to be rejected if it is above the tax filing threshold.

For a fiscal year tax return, as opposed to one for the calendar year, the applicant should report information from the fiscal year return that includes the greater number of months in 2013.

If the student or parents filed a tax return using something other than a common IRS form, such as a foreign or Puerto Rican tax form, the student should report on the FAFSA the amounts (converted to U.S. dollars) from the lines of the form that correspond most closely to those on the common IRS forms.

STEPS 2 & 4

Questions 36–40 and 85–89

Income and other tax data

Fiscal year return example

Owen's parents file a fiscal year tax return. They start their fiscal year in September. The return they filed for the fiscal year starting in September 2012 includes eight months in 2013. The return they'll file for the fiscal year starting in September 2013 only includes four months of 2013. Therefore, they should use the information from the tax return for the fiscal year that started in September 2012.

When there are U.S. and foreign tax returns

When a student or parent has returns from both a foreign nation and the United States for the same tax year, they should use the data from the U.S. return when filling out the FAFSA.

Other tax forms

The following tax forms are considered alternatives to a U.S. Form 1040A and 1040EZ: the income tax returns required by the tax codes of the Commonwealth of Puerto Rico, Guam, American Samoa, and the U.S. Virgin Islands. Information from these tax returns would be reported on the FAFSA in the same manner as U.S. tax information, and copies of these forms can be used for verification in the same way as U.S. tax forms are. Amounts are already reported in U.S. dollars, and the school should look at tax return line items that are comparable to the IRS line items for verification.

AGI worksheet for those who have not completed a tax return		
<i>Use this worksheet to estimate adjusted gross income (AGI) if you have not completed a tax return.</i>	For Question 36 Student/Spouse	For Question 85 Parents
Wages, salaries, tips, etc.	\$ _____ .00	\$ _____ .00
Interest income	+ _____ .00	+ _____ .00
Dividends	+ _____ .00	+ _____ .00
Other taxable income (alimony received, business and farm income, capital gains, pensions, annuities, rents, unemployment compensation, Social Security, Railroad Retirement, and all other taxable income)	+ _____ .00	+ _____ .00
Add all of the numbers in the column.	= _____ .00	= _____ .00
Subtract IRS-allowable adjustments to income (payments to IRA and Keogh plans, one-half of the self-employment tax, the self-employed health insurance deduction, the interest penalty on early withdrawal of savings, and alimony paid).	– _____ .00	– _____ .00
Total—write this amount in Question 36 or 85.	\$ _____ .00	\$ _____ .00

Zero income

Occasionally an applicant will report no income for the base year. This can occur when the family has tax write-offs that produce a negative AGI or when the applicant neglected to report untaxed assistance. Zero income is noted in our CPS edits and may increase the likelihood that the applicant will be selected for verification. If the CPS does not select the student for verification, you may still choose to ask her for further information about her means of support during the base year. Also, you may use professional judgment (PJ) to adjust the income line items to reflect income the family receives that doesn't appear on the tax return.

Any cash support for the student, other than support from a parent for a dependent student, counts as untaxed income and must be reported. In-kind help (see page 23) from a friend or relative is not considered untaxed income, but you may use PJ to account for the value of that in-kind support. For example, you could adjust the room and board component of the cost of attendance (COA) for a student who lives with his aunt and eats meals with her family.

Married and filing different types of returns

When a student and spouse or the student's parents file separate and different types of returns, what type should be indicated in Question 33 or 81? In such cases, IRS Form 1040 and foreign tax returns are considered comparable, while forms 1040A and 1040EZ are comparable to tax returns from the five inhabited U.S. territories: Puerto Rico, Guam, the U.S. Virgin Islands, the Northern Mariana Islands, and American Samoa. The former take precedence over the latter; for example, if a student filed a 1040A form and his spouse filed a foreign return, he would answer foreign tax return to question 33. When comparable but different returns are filed, the IRS return takes precedence and is indicated. If the above student's spouse filed a Puerto Rican return, then he would answer 1040A or 1040EZ to the question.

Married filing separately and one spouse does not file

With a married student or the married parents of a dependent student, if one spouse files separately and the other does not file a return but has some income, how do you figure the AGI? Add the income earned from work (e.g., earnings from the W-2 form or any other earning statements) of the spouse who does not file a return to the AGI (as given on line 37, 21, or 4 of Form 1040, 1040A, or 1040EZ respectively) of the spouse who does and enter the sum on the appropriate AGI line of the FAFSA.

- **Assets (41–43, 90–92 for parents).** An asset is property that the family owns and has an exchange value. The FAFSA collects current (as of the day of signing the FAFSA) data about cash, savings and checking accounts, investments, businesses, and investment farms. Most assets are **investments** such as college savings plans, Coverdell education savings accounts, real estate, installment and land sale contracts (including mortgages held), trust funds, mutual funds, money market funds, UGMA and UTMA accounts, certificates of deposit, stocks, stock options, bonds, commodities, and precious metals. If the asset isn't a business or investment farm, it is reported as an investment.

The FAFSA asks for the net worth of investments, which is their total current market value minus their associated debts. If their net worth is negative, the student reports a zero.

Similarly for **businesses and investment farms**, the current net worth is reported for land, buildings, machinery, equipment, livestock, and inventories. The current market value of a business or investment farm is reduced by the debt owed on it to determine the net worth. Business or farm debt means only those debts for which the business or farm was used as collateral.

Excluded assets—the following are NOT reported on the FAFSA:

- **Possessions** such as a car, a stereo, clothes, or furniture.
- **A family's principal place of residence**, even if it is part of a business.
- **A family farm** (including equipment, livestock, etc.) if:
 - it is the principal place of residence for the applicant and his family (spouse or, for dependent students, parents), and
 - the applicant (or parents of a dependent student) materially participated in the farming operation.
- **Family-owned and controlled small businesses** (which can include farms) that have 100 or fewer full-time or full-time equivalent employees. "Family-owned and controlled" means that more than 50% of the business is owned by persons who are directly related or are or were related by marriage (family members do not have to be counted in the household size for this question).
- **Retirement plans and whole life insurance.** The value of retirement plans—401(k) plans, pension funds, annuities, non-education IRAs, Keogh plans, etc.—is not counted as an asset, but distributions do count as income; they appear in the AGI if taxable and in questions 45 and 94 if untaxed. Similarly, the cash value or equity of a whole life insurance policy isn't reported as an asset, but an insurance settlement does count as income.

STEPS 2 & 4

Questions 41–43 and 90–92 Assets

Simplified needs test

The law provides a "simplified EFC" calculation for a student who meets certain income and tax filing requirements. If the applicant is eligible based on the information on the FAFSA, the CPS will automatically exclude assets from the EFC calculation. However, some states and schools require this information for their own aid programs.

Rental properties

Rental properties are an asset. A unit within a family home that has its own entrance, kitchen, and bath (therefore a rented bedroom would not count) and that is rented to someone other than a family member counts as an asset. To calculate its net value, multiply the net value of the entire structure by the fraction the rented space represents. Similarly, if a family owned a 10-unit apartment building and lived in one of the apartments, 9/10 or 90% of the net value of the building would be an asset.

At times a student or parent will claim rental property as a business. Generally, it must be reported as real estate instead. A rental property would have to be part of a formally recognized business to be reported as such, and it usually would provide additional services like regular cleaning, linen, or maid service.

STEPS 2 & 4

Qualified tuition programs

UGMA and UTMA accounts

The Uniform Gifts and Uniform Transfers to Minors Acts (UGMA and UTMA) allow the establishment of an account for gifts of cash and financial assets for a minor without the expense of creating a trust. Because the minor is the owner of the account, it counts as his asset on the FAFSA, not the asset of the custodian, who is often the parent.

Qualified education benefits

Qualified tuition programs (QTPs, also known as section 529 plans because they are covered in section 529 of the IRS tax code) and Coverdell education savings accounts are grouped together in the law as qualified education benefits and have the same treatment: they are an asset of the owner (not the beneficiary because the owner can change the beneficiary at any time) except when the owner is a dependent student, in which case they are an asset of the parent. When the owner is some other person (including a non-custodial parent), distributions from these plans to the student count as untaxed income, as “money received.”

States, their agencies, and some colleges sponsor plans known in the IRS tax code as qualified tuition programs. The IRS mentions two types of QTPs that are commonly called prepaid tuition plans and college savings plans. States may offer both plan types, but colleges may only sponsor prepaid tuition plans.

Prepaid tuition plans allow a person to buy tuition credits or certificates, which count as units of attendance. The number of units doesn’t change even though tuition will likely increase before the beneficiary gets to use the tuition credits. They are an asset of the plan owner, and their worth is the refund value of the credits or certificates.

College savings plans allow a benefactor to deposit money into an account that will be used for the beneficiary’s college expenses. The buyer does not pre-purchase tuition credits as with a prepaid tuition plan. Rather, this type of plan is essentially a savings account, and its value as an asset is the current balance of the account.

Coverdell education savings accounts, or ESAs, are another tax-advantaged savings vehicle for college education. They are treated the same as college savings plans: the current balance is an asset of the account owner.

As long as distributions from QTPs and ESAs do not exceed the qualified education expenses for which they are intended, they are tax-free, so they will not appear in the next year’s AGI. They should not be treated as untaxed income (except in the cases mentioned above) or as estimated financial assistance. For more information on these benefits, see the IRS’s Publication 970, *Tax Benefits for Education*.

Reporting “take-back” mortgages

In a take-back mortgage, the seller of a house finances a portion of its cost for the buyer, who repays this additional mortgage to the seller. The seller reports the interest part of any payments received from the buyer on Schedule B of IRS Form 1040. Therefore, if a student or his parents report such interest on the tax return, it likely indicates an asset that should be reported on the FAFSA: the value of the take-back mortgage. There would be no debt reported against this asset. For example, if a dependent student’s parents sold their house for \$200,000 and financed a take-back mortgage of \$40,000 to the buyer, the parents should report \$40,000 as the net worth of the investment. The worth will decrease each year depending on how much of the principal the buyer paid back that year. This concept applies to other forms of seller financing of the sale of a home or other property.

Reporting trust funds

Trust funds in the name of a student, spouse, or parent should be reported as that person's asset on the application, generally even if the beneficiary's access to the trust is restricted. If the settlor of a trust has voluntarily placed restrictions on its use, then the student should report its present value as an asset, as discussed below. If a trust has been restricted by court order, however, the student should not report it. An example of such a restricted trust is one set up by court order to pay for future surgery for the victim of a car accident.

How the trust must be reported depends on whether the student (or dependent student's parent) receives or will receive the interest income, the trust principal, or both. In the case of a divorce or separation where the trust is owned jointly and ownership is not being contested, the property and the debt are equally divided between the owners for reporting purposes unless the terms of the trust specify some other method of division.

Interest only

If a student, spouse, or parent receives only the interest from the trust, any interest received in the base year must be reported as income. If the interest accumulates and is not paid out, the recipient must report an asset value for the interest she will receive. The trust officer can usually calculate the value of the interest the person will receive while the trust exists. This value represents the amount a third person would be willing to pay for the interest income.

Principal only

The person who will receive only the trust principal must report as an asset the present value of his right to that principal. For example, if a \$10,000 principal reverts to a dependent student's parents when the trust ends in 10 years and the student is receiving the interest, he would report the interest he received as income and report as a parental asset the present value of his parents' rights to the principal. The present value of the principal can be calculated by the trust officer; it's the amount that a third person would pay for the right to receive the principal 10 years from now—basically, the amount that one would have to deposit now to receive \$10,000 in 10 years.

Both principal and interest

If a student, spouse, or parent receives both the interest and the principal from the trust, the student should report the present value of both interest and principal, as described in the discussion of principal only. If the trust is set up so that the interest accumulates within the trust until it ends, the beneficiary should report as an asset the present value of the interest and principal that she is expected to receive when the trust ends.

Ownership of an asset

In some cases the ownership of an asset is divided or contested, which can affect how the student reports the asset.

Part ownership of asset

If the parent or student has only part ownership of an asset, the student should report only the owned part. Generally the value of an asset and debts against it should be divided equally by the number of people who share ownership unless the share of the asset is determined by the amount invested or the terms of the arrangement specify some other means of division.

Contested ownership

Assets shouldn't be reported if the ownership is being contested. For instance, if the parents are separated and can't sell or borrow against jointly owned property because it's being contested, the parent reporting FAFSA information would not list any net worth for the property. However, if the ownership of the property is not being contested, the parent would report the property as an asset. If ownership of an asset is resolved after the initial application is filed, the student can't update this information.

Lien against, and imminent foreclosure of, an asset

If there's a lien against the asset, the net value of the asset is determined by subtracting from its total value any associated debt as well as the amount of the lien. If foreclosure of an asset is imminent, the net value of the asset would still be reported until the party making the foreclosure completes legal action to take possession of the asset. If the status of the property changes after the application is filed, the student can't update the asset information.

STEPS 2 & 4

Questions 44 and 93

Taxable income offsets

American Opportunity credit

Part of this credit can be refundable, that is, payable to tax filers even if they do not owe any federal income tax. The nonrefundable portion appears on the same lines of the tax return and the FAFSA as the Lifetime Learning credit. The refundable portion appears on line 66 of the 1040 form and line 40 of the 1040A. It does not appear on the lines of the FAFSA for the education tax credits, nor does it count as untaxed income.

Reimbursements and stipends

Employers often help with education costs by paying stipends or reimbursing employees for classes taken. These benefits count as estimated financial assistance (or reduce the cost of attendance) even if they aren't received until the end of the class(es) and are contingent on earning a minimum grade. Any taxable portion received in the prior year and appearing in the AGI is entered in Question 44 or 93.

Child support payments example

Steven and his wife each have a child from a previous relationship who doesn't live with them and for whom they pay child support. Because Steven provides over half of his daughter's support through his payments, he counts her in his household size. Therefore, he doesn't report the amount of child support he pays on his FAFSA. Steven's wife isn't providing over half of her son's support, so he isn't included in Steven's household size. Therefore, Steven can report the amount of child support his wife pays.

The full amount of the distribution is reported, whether it was a lump sum or annual distribution, and it will count as taxable or untaxed income, as appropriate. An exception to reporting pension distributions is when they are rolled over into another retirement plan in the same tax year.

→ **Excluded assets for Native American students.** The law excludes reporting any property received under the Per Capita Act or the Distribution of Judgment Funds Act (25 U.S. Code 1401, *et seq.*), the Alaska Native Claims Settlement Act (43 U.S. Code 1601, *et seq.*), or the Maine Indian Claims Settlement Act (25 U.S. Code 1721, *et seq.*).

■ **Taxable income offsets (44 and 93).** These questions total certain types of income and other monies that are excluded from income in the need analysis. The CPS subtracts these excluded amounts from the AGI when calculating the EFC.

a. Education tax credits. These are the American Opportunity and Lifetime Learning tax credits; the FAFSA refers to lines 49 and 31 on the 1040 and 1040A tax returns respectively. See the margin note.

b. Child support payments. Count those *made* during 2013 because of divorce, separation, or legal requirement by the student, spouse, or parent whose income is reported on the FAFSA. Don't include support for children in the household (see the example in the margin). Also, don't count child support *received* for a child in the household size; that is considered untaxed income.

c. Taxable earnings from need-based work programs. These are earnings from any need-based work program, including Federal Work-Study and need-based employment portions of fellowships or assistantships. The student uses the W-2s or other records she received for these earnings.

d. Student grant and scholarship aid. A student reports **only** the amount of grants and scholarships received that is taxable income. This includes grant and scholarship (not employment) portions of fellowships and assistantships, as well as taxable stipends and employer tuition reimbursements. Include also AmeriCorps benefits (awards, living allowances, and interest accrual payments) except those for health care or child care. The filer usually writes the taxable amount of the grant or scholarship separately on the tax form next to the line where wages and other earnings are reported. If the amount was reported this way, the student can copy it from the tax form.

e. Combat pay. Enter only the portion that was included in adjusted gross income. This should be zero for enlisted persons and warrant officers (including commissioned warrant officers) because their combat pay is entirely non-taxable. For commissioned officers generally, combat pay in excess of the highest enlisted person's pay (plus imminent danger/hostile fire pay) is taxable. To determine the taxable amount, find the total combat pay from the serviceperson's leave and earnings statements and subtract the untaxed portion,

which is reported in box 12 of the W-2 form with code Q. See IRS Publication 3, *Armed Forces' Tax Guide*, for more information.

f. College cooperative education program earnings from work. The student uses the W-2s or other records she received for these earnings.

- **Untaxed income (45 and 94).** These questions total the untaxed income, some of which is reported on the tax form even though it isn't taxed. A student who hasn't filed a return will have to estimate these amounts, and students or parents may need to separate information from a joint return.

a. Payments to tax-deferred or sheltered pension and savings plans (paid directly or withheld from earnings). This includes untaxed portions of 401(k) and 403(b) plans. These types of payments are listed in boxes 12a through 12d of the W-2 and will have one of the following codes: D, E, F, G, H, or S. Note that employer contributions to these plans shouldn't be reported as an untaxed benefit.

b. Deductible IRA or Keogh payments. Payments to an IRA or Keogh plan that are excluded from taxation are reported as untaxed income. These amounts appear on the tax return.

c. Child support received for all children.

d. Tax-exempt interest income. Certain types of interest, such as interest on municipal bonds, are tax-exempt. This amount is on line 8b on both the 1040 and 1040A forms.

e. and f. Untaxed IRA distributions and pension or annuity payments. A tax filer determines how much of his IRA distribution or pension or annuity payment is taxable when he completes his tax return. The applicant reports the untaxed portion, which is determined from the tax return, but should not include rollovers (transfers of funds from one IRA to another).

g. Housing, food, and other living allowances. Some people, particularly clergy and military personnel, receive these allowances as compensation for their jobs. Money received to pay for rent should also be reported, as should the free use of a house or apartment (the rent or market value of a comparable house or apartment can be used). Similarly, if the student received free room or board in 2013 for a job that was not awarded as student financial aid (including resident advisor positions that provide free room and board as part of the student's non-need-based employment compensation), she must report the value of the room and board as untaxed income. Note the housing exclusions on the following page.

h. Veterans' noneducation benefits. This includes disability, the death pension, Dependency and Indemnity Compensation (DIC), and Veterans Affairs (VA) educational work-study allowances.

STEPS 2 & 4

Questions 45 and 94

Untaxed income

Health savings accounts

Health savings accounts (HSAs) resemble tax-deferred pension and savings plans more than flexible spending arrangements; for example, the balance in an HSA persists from year to year, while that in a flexible spending arrangement must be spent on qualified expenses by the end of the year. Therefore, treat tax-free contributions to an HSA as untaxed income; these will appear on line 25 of the 2013 IRS Form 1040. The balance in the account does not count as an asset, nor would distributions from it count as untaxed income when they are used for qualified medical expenses. Distributions not used for qualified expenses are subject to income tax (and a possible penalty) and will be counted in the adjusted gross income.

Extended foster care payments

Foster children who meet certain criteria can receive benefits until age 21. If these extended payments are under the authority of Title IV, Part E, of the Social Security Act, they are not reported on the FAFSA. If they are paid under some other authority, *e.g.*, a state foster youth support program, they are reported as untaxed income to the student in Question 45i of the 2014–2015 FAFSA. See DCL GEN-13-18.

Independent student with parental support example

Doug is a graduate student, so he's independent even though he still lives with his parents and has no income of his own. Although the FAA at his school can't make him a dependent student, she can decide to use professional judgment to add an amount to his untaxed income to account for the in-kind support his parents provide.

STEPS 2 & 4

Questions 45 and 94

Untaxed income

Box 14 items on the W-2

Schools are not required to review income listed in box 14 of the IRS's W-2 form. There are a few reasons for this. Several of the items the IRS suggests could be reported in box 14 are captured already on the FAFSA (in adjusted gross income for instance); also, employers could include in box 14 certain non-elective pension plan contributions, and non-elective contributions should not be counted in the need analysis. Finally, because no employer is required to provide information in box 14, it is unlikely that employers will be consistent in what they report there.

But if you are aware that a box 14 item should be reported—i.e., if it represents discretionary income—you should count it on the pertinent line. For example, clergy parsonage allowances often appear in box 14, and you would count that on line g of Question 45 or 94.

i. Any other untaxed income not reported elsewhere. This includes disability (but not Social Security disability), worker's compensation, tax-free contributions to HSAs (see the margin note), interest income on education IRAs, untaxed portions of Railroad Retirement benefits, black lung benefits, refugee assistance, the untaxed portion of capital gains, and foreign income that wasn't taxed by any government and isn't part of the Foreign Earned Income Exclusion.

j. Money received (45 only). The student reports any cash support he received, but if dependent he does not count his parents' support, with one exception: money from a non-custodial parent that is not part of a legal child support agreement is untaxed income to the student. Cash support includes money, gifts, and loans, plus housing, food, clothing, car payments or expenses, medical and dental care, college costs, and money paid to someone else on his behalf. For example, if a friend or relative pays his electric bill or part of his rent, he must report the amount as untaxed income. If he is living with a friend who pays the rent and the student's name is on the lease, the rent paid on his behalf counts as cash support because he is responsible for payments that his friend is making. Note that this item does not appear in the parents' question—only the student reports this information.

Tips on reporting benefits:

The student reports the actual amount of benefits received during the year, even if it is an underpayment or an overpayment that will be corrected in the next year. However, if the underpayment or overpayment was adjusted in the same year, only the net amount received during that year would be reported.

Benefits the student or parent receives on behalf of anyone included in his FAFSA household size count as income to him unless the person is an adult, e.g., a grandmother (a child would not count) who receives the benefits in her name. Such a person is not included in the household size if benefits in her name total more than half of her support.

Income and benefits NOT to be included:

- **Student aid** is accounted for in packaging (see *Volume 3: Calculating Awards and Packaging*); it does not count as income in the calculation of the EFC. Student aid includes tuition benefits a parent receives for a dependent, such as those from the parent's employer. Student aid that was included in the AGI is reported separately as an exclusion so that it can be subtracted from income.
- **Veterans' education benefits.** Appendix A in *Chapter 7* of *Volume 3* for 2013–2014 has the list of excluded benefits. See also the August 13, 2009, electronic announcement at www.ifap.ed.gov for information.
- **The value of on-base housing** or the basic allowance for housing (BAH) for students or parents who are in the military. However, the basic allowance for subsistence (BAS) still counts as untaxed income.

- **Rent subsidies for low-income housing.**
- **Payments and services received from states for foster care or adoption assistance,** under Part A or Part E of Title IV of the Social Security Act.
- **Per capita payments to Native Americans.** Money received from the Per Capita Act or the Distribution of Judgment Funds Act should not be reported unless it exceeds \$2,000 per payment. Any amount over \$2,000 is reported as untaxed income.
- **Heating/fuel assistance.** This includes payments or allowances received under the Low-Income Home Energy Assistance Act (LIHEA). Payments under the LIHEA are made through state programs that may have different names.
- **Flexible spending arrangements.** These are employee benefit programs, sometimes called “cafeteria plans.” Neither contributions to nor payments from these programs should count as untaxed income.
- **Welfare benefits (e.g., Temporary Assistance for Needy Families or TANF), untaxed Social Security benefits, and the earned income and additional child tax credits.** Welfare benefits are state or federal supplementary assistance that is means-tested.
- **Combat pay, foreign income exclusion, and credit for federal tax on special fuels.**
- **In-kind support** is other than money, for example, friends or relatives giving the student food or allowing him to live with them rent-free. That support isn’t included as untaxed income, though you may use professional judgment (e.g., by reducing the cost of attendance or increasing income) with students who receive such in-kind support. This is not the same as housing and other allowances received as compensation for a job, which, as stated earlier, must be reported. If the student is living with someone who is paying living expenses, it can be difficult to determine whether the support is cash support or in-kind support. The basic rule is: if someone pays a cost the student is obligated to pay, the amount counts as cash support.

STEP THREE: DEPENDENCY STATUS

Purpose: The law governing the FSA programs is based on the premise that the family is the first source of the student’s support, and the law provides several criteria that decide if the student is considered independent of his parents for aid eligibility. Note that a student reaching the age of 18 or 21 or living apart from his parents does not affect his dependency status. For the 2014–2015 year, a student who meets any of the following criteria from HEA Sec. 480(d) is independent; he

- was born before January 1, 1991,
- is married as of the date he applies,

STEP 3

Untaxed income not reported on the FAFSA

Dependent benefits example

Stanislaw’s uncle Yvor lives with him and receives a small disability payment each month. This amount is paid directly to Yvor, so Stanislaw doesn’t report it as income when he completes the FAFSA. The payment is small enough that Stanislaw is still providing more than half of Yvor’s support, and because he expects to continue to provide more than half support during the award year, he includes Yvor as a dependent in his household size. However, starting the July after the current award year, Yvor expects to also start receiving a pension. The combination of the pension and the disability payment will be enough that Stanislaw won’t be providing more than half of his uncle’s support and therefore won’t be able to include Yvor in his household size after this award year.

Examples of in-kind income (not to be reported on the FAFSA)

- SNAP (formerly Food Stamp Program)
- Women, Infants, and Children Program (WIC)
- Food Distribution programs
- National School Lunch and School Breakfast programs
- Commodity Supplemental Food Program (CSFP)
- Special Milk Program for children
- Daycare provided by the Social Services Block Grant Program (if the recipient receives **reimbursement** for child care expenses, that amount is reported as income)
- WIA (formerly JTPA) educational benefits
- Rollover pensions
- Payments and services received from states for foster care or adoption assistance, under Part A or Part E of Title IV of the Social Security Act

STEP 3

Questions 47–48 Dependency status

Military service academies and preparatory schools

U.S. Military Academy (West Point)
U.S. Naval Academy (Annapolis)
U.S. Air Force Academy
U.S. Coast Guard Academy
U.S. Merchant Marine Academy
U.S. Military Academy Preparatory School
Naval Academy Preparatory School
U.S. Air Force Academy Preparatory School

Early exit cadets

Students who attend a U.S. military academy or military academy preparatory school and who are discharged other than dishonorably prior to commission are veterans for FSA purposes but might not be veterans for VA purposes. These students will likely receive match results showing that they aren't veterans. Just like other students who receive these match results, if an early exit cadet meets one of the other criteria for independence, no resolution is required. But if he meets no other independence criteria, he must provide the school with documentation that shows he was a cadet of a military academy or its preparatory school.

Example: surviving parent and stepparent

Meurig's parents divorced when he was seven. His mother later remarried, and Meurig lived with her and with his stepfather, who did not adopt him. His mother died last year, but his father is still living. Meurig doesn't meet any of the independence criteria, so he's a dependent student. Because his father is his only surviving parent, Meurig needs to report his father's information on the form, even though he's still living with and being supported by his stepfather.

- will be a graduate or professional student when the award year starts,
- is currently serving on active duty for purposes other than training,
- is a veteran of the U.S. Armed Forces,
- has dependents other than a spouse,
- was an orphan, foster child, or ward/dependent of the court at any time since the age of 13,
- is an emancipated minor or in legal guardianship or was when he reached the age of majority in his state, or
- was determined at any time since July 1, 2013, to be an unaccompanied youth who was homeless or self-supporting and at risk of being homeless.

If a student is considered a dependent of his parents, their income and assets must be included on the FAFSA. The CPS will calculate a parent contribution and add it to the student's contribution to derive an EFC.

In unusual cases an aid administrator can determine that a student who doesn't meet any of the independence criteria should still be treated as an independent student. (See "Dependency Overrides" in *Chapter 5*.)

- **Married (47).** The student must answer this question according to her marital status at the time the FAFSA is signed; after that, she **cannot** update FAFSA information for changes in her marital status except in limited instances; see *Chapter 4*.

A student who is only engaged answers as unmarried unless she waits until after the wedding to complete the FAFSA. For this question a student is considered married if she is separated or planning to divorce or if she has a relationship that meets the criteria for common-law marriage in her state. A student who was independent only because she was married becomes dependent for the next award year if she divorces and cannot answer yes to any of the dependency questions.

- **Graduate or professional study (48).** The FAFSA asks if the student will be working on a master's, doctorate, or graduate certificate program at the beginning of the school year. A student who is a graduate or professional student is independent for purposes of Title IV aid.

Graduate and professional students aren't eligible for Pell grants, so a student who incorrectly answers "Yes" to this question must submit a correction before he can get a Pell grant, even if he is independent for another reason.

Students should fill out the FAFSA based on their expected grade level at the beginning of the award year. If a dependent student completes her undergraduate program during the year and begins graduate school, she can update the answer to the dependency question so that the CPS can reprocess her application, or the aid administrator at the graduate school can recalculate her EFC and use it to package her graduate aid.

■ **Member or veteran of the U.S. Armed Forces (49 and 50).**

Veterans and persons on active duty in the U.S. Armed Forces (the Army, Navy, Air Force, Marines, or Coast Guard) for purposes other than training are independent.

Veterans are those who were in active service (which includes basic training, aka boot camp) and were released under a condition other than “dishonorable.” This includes those who fraudulently entered the service, as long as their entire period of service was not voided. There is no minimum amount of time the student has to have served to be a veteran—even one day counts—but it does have to be active service. This is less stringent than the VA’s definition of a veteran for receiving certain VA benefits.

The application also tells students to answer “Yes” to the question about veteran status if they aren’t yet a veteran but will be by June 30, 2015. Students who attended a **U.S. service academy** or preparatory school (see margin note on page 24) for at least one day and were released under conditions other than “dishonorable” count as veterans for Title IV purposes. Students serving in ROTC or currently attending a U.S. military academy are not veterans.

Members of the **National Guard** or **Reserves** are only considered veterans if they were called up to active federal duty by presidential order for a purpose other than training. It does not matter how long the active duty lasted or if the student returned to reserve status afterward, but, as with the other qualifying veterans, the student must have had a character of service that was not “dishonorable.”

■ **Children and legal dependents (51 and 52).** Students who have legal dependents are independent. Legal dependents comprise children (including those who will be born before the end of the award year) of the student who receive more than half their support from the student, and other persons (except a spouse) who live with and receive more than half their support from the student as of the FAFSA signing date and will continue to do so for the award year. The same criteria apply to household size.

When a student applies after the award year has begun, in order to count a person not her child as a dependent, the support already given that year plus the future support must total more than 50% for the whole year. See the margin example.

■ **Orphan, foster child, or ward of the court (53).** A student who was an **orphan**—both her parents were dead—when 13 or older is independent even if she was subsequently adopted. Likewise, a student who was at any time since the age of 13 a **foster child** or a **ward of the court** is independent even if her status changed later.

STEP 3

Questions 49–53

Dependency status

Legal dependent examples

Laurel is going to college and is her cousin Paul’s legal guardian. Paul receives Social Security benefits, but because he’s a minor, the benefits are paid to Laurel on his behalf. These benefits provide more than half of Paul’s support. Because Paul lives with Laurel and will be supported by her (through the Social Security benefits) throughout the award year, Laurel answers “Yes” to the legal dependent question. If Paul didn’t live with Laurel, she would have to answer “No” to the question.

Alan pays \$4,000 to support his girlfriend, Cathy, who lives with him. She has earned income of \$3,000, and she receives \$200 a month (\$2,400 a year) from her parents. She uses all of this for her support. Alan cannot consider Cathy a dependent since the \$4,000 he provides is not more than half of her total support of \$9,400.

In April 2014 Anika applies for aid for 2013–2014. One month prior to that, her cousin Bettina came to live with her. Even though Anika provides all of her cousin’s support, the one month of support she has given plus the two months left in the award year would not amount to more than 50% for the entire year, so she can’t consider Bettina her dependent for 2013–2014. If Bettina had moved in just before the midpoint of the year, Anika would have been able to count her as a dependent for 2013–2014.

STEP 3

Veteran match

Veteran match (for Question 50)

If the student answers “Yes” to the question about veteran status, the CPS performs a match with the U.S. Department of Veterans Affairs (VA) records to confirm that status. The VA sends the result back, which appears as a match flag in the FAA Information section of the output document. For flags 2, 3, and 4, a comment and a C flag will appear on the SAR only if veteran status is the sole reason that the student would be independent. See the guide *SAR Comment Codes and Text: 2014–2015* on the IFAP website.

Successful match (match flag 1)

There won’t be any comments on the output document if the VA confirms that the student is a veteran.

Not a veteran (match flag 2)

A student will receive this flag if the VA database indicates he is not a veteran. If the student answered “Yes” to one of the other dependency questions, he is independent based on that question and can receive student aid without resolving his veteran status.

If the student answered “No” to all the other dependency questions and he believes he is a qualifying veteran, he should provide the financial aid office at his school a copy of his DD214 (the Certificate of Release or Discharge from Active Duty, with “Character of Service” as anything but “dishonorable”). If it shows that he is a veteran, he can receive aid as an independent student. A dependency override is not necessary because the CPS accepts his “Yes” answer to the veteran question. If a national guardsman or a reservist who served on active duty (for other than training) did not receive a DD214 but can obtain a letter from a superior officer that documents the call-up to active duty and that classifies the character of service as anything but “dishonorable,” the student will be considered a veteran for FSA purposes. If the student turns out not to be a veteran, he will need to change his answer to the question from “Yes” to “No” and provide parent information, including a parent’s signature.

If the VA match problem is due to an error in the VA’s database, the student should contact the VA and correct the error. A subsequent transaction will then redo the match with the VA.

Not in database (match flag 3)

Much of the guidance above applies for students not in the VA database: if the student is independent for a reason other than being a veteran, she doesn’t need to resolve the problem before receiving student aid, although she should have the VA correct its database if it’s wrong. If she answered “No” to the other dependency questions, she must either correct any problem with the VA, provide documentation showing she is a veteran or will be one by June 30, 2015, or, if she is not a veteran and will not be one by that date, provide parent data and change her response to the question from “Yes” to “No.”

Active duty (match flag 4)

If the student is currently on active duty, he isn’t a veteran yet, but if his active duty will end by June 30, 2015, he counts as a veteran for dependency status. Because he should have answered “Yes” to the active duty question, he would be independent by that criterion and wouldn’t have to resolve this situation.

STEP 3

Who is a parent or has dependents

Who counts as a parent on the FAFSA?

If the applicant answers “No” to questions 46–58, then she is dependent and must report parental information. In most cases it’s clear who the parents are but not always.

✓ **Biological, adoptive, and stepparents**

A dependent student with two married, biological parents reports their income and assets in Step 4 on the FAFSA. Adoptive parents are treated just like biological parents. A stepparent is considered a parent if married to a biological or adoptive parent and if the student counts in their household size. Beginning with 2014–2015, biological and adoptive (whether of the opposite or the same sex) parents who are unmarried and living together will give that as their status in Question 59, and both will report their information on the FAFSA. See DCL GEN-13-12.

However, a stepparent who did not adopt the student cannot be the sole parent for determining dependency status. If the other parent dies, the student is still a dependent of the remaining biological parent, not the stepparent. If no biological parent remains, the student answers “Yes” to Question 53 and is independent.

✗ **Foster parents, legal guardians, and relatives**

A foster parent or a legal guardian is not treated as a parent for FSA purposes. If at any time since the age of 13 both of the student’s parents were dead (and he did not have an adoptive parent) or he was in foster care, he is independent. If he is now, or was when he became an adult, an emancipated minor or in legal guardianship (see the exception under Question 55), he is independent.

If a student is living with her grandparents or other relatives, their data should not be reported on the FAFSA as parental data unless they have adopted the student. Any cash support from persons other than the student’s parents should be reported as untaxed income, as discussed in Step 2. The school may also consider other kinds of support as part of the student’s financial resources and use professional judgment to include the support under the item for student’s untaxed income (see *Chapter 5* on professional judgment).

Other sources of support for children and other household members

If the student is receiving support to raise her child, is the child still considered a legal dependent? If one or both of the student’s parents are directly or indirectly providing more than 50% support in cash or other assistance to the child, then the student would answer “No” to the FAFSA question about legal dependents. “Indirect support” to the child includes support that a parent gives to the student on behalf of the child. If the student is living with a parent who is paying for most of the household expenses, the parent would usually be considered the primary source of support to the child, and the student would answer “No” to the question about legal dependents. However, there may be some cases where the student can demonstrate that she provides more than half of her child’s support even while living at home, in which case she would answer “Yes” to the question about legal dependents.

When the student receives money for the child from any source other than her parents, she may count it as part of her support to the child. Sources include child support and government programs, such as Temporary Assistance for Needy Families (TANF) and the Supplemental Nutrition Assistance Program (SNAP, formerly the federal Food Stamp Program), that provide benefits for dependent children. So a student may be considered independent when the benefit she receives is the primary support for her child. For example, if a student who lives alone with her child receives cash from her boyfriend that amounts to more than 50% support for her child, then she would be able to count the child as a dependent and in her household size, and she would be independent. If the boyfriend is the father of the child and a student himself, then he would also be able to count the child as a dependent and in his household size, and he would be independent too.

STEP 4

Questions 54–69

Dependency status and parent information

Student living with relatives example

Millie's father is dead, and her mother can't support her, so she is living with her grandmother. Her mother doesn't pay any money for her support. Millie doesn't meet any of the independence criteria, so she has to provide parental information. Because her grandmother hasn't adopted her, her grandmother isn't her parent. Millie will have to provide information about her mother on the form unless there are unusual circumstances that would warrant a dependency override or her receiving only unsubsidized loans. In any case, the school might use PJ to account for the grandmother's support.

Dependent student household size example

Lydia is a dependent student, and her parents are married. Her brother Ron is 26, but his parents still provide more than 50% of his support, so he is included in the household size. Her sister Elizabeth is attending college but is an independent student and isn't supported by their parents, so she isn't included in the household size. Her sister Susan is not attending college but is working and supporting herself. However, if Susan were to apply for student aid, she would be considered a dependent student, so she is included. Therefore, the household size that Lydia reports for her parents is five.

A student is a ward of the court if it has assumed legal custody of her. In some states the court may impose its authority over a juvenile who remains in the legal custody of her parents; such a student is not a ward of the court. Also, incarceration of a student does not qualify her as a ward of the court. In some states the phrase "ward of the state" is used. This is considered the same as a ward of the court for dependency status as long as the student is a ward of the state **not** due to incarceration.

- **Emancipation and legal guardianship (54 and 55).** Students are independent if they are, or were upon reaching the age of majority, emancipated minors (released from control of their parent or guardian) or in legal guardianship, both as adjudicated by a court of competent jurisdiction in the state of the students' legal residence at the time of the adjudication. While the basis for emancipation can vary by state, the emancipation must be determined by a court, not by an attorney. Students in legal guardianship to their parents, for instance, if they are disabled adults and under their parents' care, are not independent for Title IV program purposes by this criterion and would answer "No" to Question 55.
- **Unaccompanied homeless youth (56–58).** A student is independent if at any time on or after July 1, 2013 (irrespective of whether he is currently homeless or at risk thereof), he is determined to be an unaccompanied youth who is homeless or is self-supporting and at risk of being homeless. This determination can be made by: a school district homeless liaison, the director (or designee) of an emergency shelter or transitional housing program funded by the U.S. Department of Housing and Urban Development, or the director (or designee) of a runaway or homeless youth basic center or transitional living program. These authorities make this determination if the student is receiving their programs' services or if, in the case of a school district homeless liaison, the student is in high school. An FAA may also determine this; see *Chapter 5*.

STEP FOUR: PARENTS' INFORMATION (DEPENDENT STUDENTS ONLY)

Purpose: Questions 59–79 collect information about the student's parents and their household. Questions 80–94 collect tax and financial data for the parents, and because these questions are answered in the same way as for the student, they were discussed earlier.

- **Parents' personal information (59–69).** The FAFSA asks for parents' marital status; the month and year they were married, separated, divorced, or widowed; SSN; last name; first initial; and date of birth. This information is used for the IRS Data Retrieval in FOTW and helps the government estimate erroneous Pell payments. If the SSN, last name, and birth date for at least one parent are not provided, or if neither parent's SSN matches with the Social Security Administration, the application will be rejected. When the SSN doesn't match with SSA, the wrong number must be corrected so that the application and SSA agree. For a name or birth date that doesn't match, correct the application if it's wrong or re-enter the information if it's correct. If the

parent doesn't have an SSN, enter 000-00-0000 to prevent or remove a reject code. (See also the SSN chapter in *Volume 1*.)

- **Parents' state of residence (70–72).** Parents who do not live in the U.S. should enter “FC” for Question 70.

- **Household size (73).** This determines the standard living allowance that offsets family income in the EFC calculation. The following persons count in the household size of a dependent student's parents:

→ **The student and parents**, even if the student is not living with them. Exclude a parent who has died or is not living in the household because of separation or divorce, but include a parent who is on active duty in the U.S. Armed Forces apart from the family.

→ **The student's siblings and children**, if they will receive more than half their support from the student's parent(s) from July 1, 2014, through June 30, 2015. Siblings need not live in the home. This includes unborn children and siblings of the student who will receive more than half support from the student's parent(s) from birth to the end of the award year. It also includes siblings who would be considered dependent based on the FAFSA dependency questions (i.e., they need not be students nor apply for aid).

For children in the household size, the “support test” is used rather than residency because there may be situations in which a parent supports a child who does not live with her, such as when the parent is divorced or separated. If the parent receives benefits (such as Social Security payments) in the child's name, these benefits must be counted as parental support to the child. An exception to this is foster care payments, which typically cover the costs of foster children, who for FSA purposes are not considered children of the foster parents and are not counted in the household size.

→ **Other persons** who live with and receive more than half their support from the student's parent(s) and will receive more than half support for the entire award year. When the application is submitted after the start of the year, see the relevant paragraph and example about legal dependents on page 25.

- **Number in college (74).** The applicant is **always** included in the number in college, but parents are not included. Others who count in the household size are in the number in college if they are or will be enrolled at least half time during the award year in an eligible degree or certificate program at a school eligible for any of the FSA programs. The definition of half-time enrollment for this question must meet the federal requirements even if the school defines half time differently. (See *Volume 1: Student Eligibility* for enrollment status requirements.)

- **Receipt of means-tested federal benefits (75–79).** This is an alternative for the tax return requirement of the simplified needs and automatic zero EFC tests.

STEP 4

Questions 70–79 State, household size, number in college, and federal benefits

FSA and IRS household rules

The rules that decide whether someone is counted in the household for FSA purposes aren't identical to the IRS rules for determining dependents or household members.

Service academies, household size, and number in college

Students at U.S. service academies (see the margin note on page 24) have most of their primary educational expenses paid for by the federal government. Because of this, their families cannot “reasonably be expected to contribute to their postsecondary education” and they are not counted in the number in college in the families of either dependent or independent students. Since they will not receive more than one-half of their support from any person, they also do not count in the household size of any independent students and some dependent students. However, if a service academy attendee is a sibling of a dependent student and can answer “No” to all the dependency status questions, he would count in the household size of that dependent student. HEA Sec. 474(b)(3); 480(k),(l)

Number in college

HEA Sec. 474(b)(3)

STEP 4

Questions 80–84 Tax data and dislocated worker

Response of “Don’t know”

“Don’t know” is treated as “No” by the CPS. If a person gives this response, you are not required to verify it, but you may want to determine if he is a dislocated worker and if that would affect the student’s eligibility for federal aid.

- **Tax forms filed by parents, filing status, income, and assets (80–83, 85–94).** Refer to the earlier discussion for these questions.
- **Dislocated worker (84).** This status, as defined (see 29 U.S.C. 2801) in the Workforce Investment Act of 1998 or WIA, is an alternative to the tax return and means-tested federal benefits criteria for determining if a person qualifies for the simplified needs test or automatic zero EFC. A person would answer “Yes” to this question if she meets the statutory definition of dislocated worker but does not appear to because of the general nature of the FAFSA instructions. Under the WIA, a dislocated worker is someone who falls into at least one of these categories:
 1. A person who meets all of the following requirements:
 - she was terminated or laid off from employment or received a notice of termination or layoff;
 - she is eligible for or has exhausted her unemployment compensation, **or** she is not eligible for it because, even though she has been employed long enough to demonstrate attachment to the workforce, she had insufficient earnings or performed services for an employer that weren’t covered under a state’s unemployment compensation law; **and**
 - she is unlikely to return to a previous industry or occupation.
 2. A person who was terminated or laid off from employment or received a notice of termination or layoff as a result of any permanent closure of, or any substantial layoff at, a plant, facility, or enterprise.
 3. A person who is employed at a facility at which the employer made a general announcement that it will close within 180 days.
 4. A person who is employed at a facility at which the employer made a general announcement that it will close.
 5. A self-employed person (including farmers, ranchers, or fishermen) who is unemployed because of natural disasters or because of general economic conditions in his community.
 6. A displaced homemaker who meets all of the following criteria:
 - she has been providing unpaid services to family members in the home;
 - she has been dependent on the income of another family member but is no longer supported by that income; **and**
 - she is unemployed or underemployed and is having difficulty obtaining or upgrading employment. An “underemployed” person is one who is working part time but wants to work full time or one who is working below the demonstrated level of her education or job skills.

Reporting information in cases of death, separation, divorce, and remarriage

Death of a parent

If one, but not both, of the student's parents has died, the student answers the parental questions about the surviving biological or adoptive parent and does not report any financial information for the deceased parent. If both her parents are dead when she fills out the FAFSA, she must answer "Yes" to Question 53, making her independent. Remember that an adoptive parent counts as a parent, but a legal guardian doesn't. If the surviving parent dies after the FAFSA has been filed, the student must update her dependency status and report income and assets as an independent student.

Stepparent

A stepparent is treated like a biological parent if the stepparent has legally adopted the student or if the stepparent is married, as of the date of application, to a student's biological or adoptive parent whose information will be reported on the FAFSA. **There are no exceptions.** A prenuptial agreement does not exempt the stepparent from providing information required of a parent on the FAFSA. The stepparent's income information for the entire base year, 2013, must be reported even if the parent and stepparent were not married until after 2013. See above for how to fill out the parent questions when the stepparent's spouse (the biological parent) dies; if the stepparent has not adopted the student, he would no longer provide parental information as before, but any financial support he gives to the student would be counted as untaxed income.

Divorce of the student's parents

If the student's parents are divorced, he should report the information of the parent with whom he lived longer during the 12 months prior to the date he completes the application, regardless of which parent claimed him as an exemption for tax purposes. If the student lived equally with each parent or didn't live with either one, then he should provide the information for the parent from whom he received more financial support or the one from whom he received more support the last calendar year for which it was given. Note that it is not typical that a student will live with or receive support from both parents exactly equally. Usually you can determine that the student lived with one of the parents more than half the year or that he received more than half support from one of the parents. Example: Marta is 22 and doesn't meet any of the independence criteria. Her parents divorced recently, and she hasn't lived with them since she was 18. Also, neither parent provided support in the past year. The last time she received support from her parents was when she lived with them and they were still married. Because her father's income was larger and he contributed more money to the overall household expenses, Marta determines that the last time she received support, most of it was from her father. She provides his data on the FAFSA.

If biological or adoptive parents who are divorced still live together, their status is unmarried and living together and both would report their information on the FAFSA; see page 27. If one or both of them have married someone else and all live in the same household (and presumably the student lived with both parents an equal amount of time), the parent and stepparent, if applicable, who provided more support in the previous year would include their information on the FAFSA. Schools may use PJ to account for the other parent's financial contribution that is not already properly counted as child support on line 45c or money received on line 45j of the 2014–2015 FAFSA.

Separation of the student's parents or the student and spouse

A couple need not be legally separated to be considered separated—they may deem themselves informally separated when one of the partners has left the household for an indefinite period and the marriage is severed. While a married couple that lives together can't be informally separated, in some states they can be legally separated. If their state allows this, and if they are still living together and are legally separated, then that is their status on the FAFSA unless they are the parents of a dependent student, in which case their status is unmarried and living together and both would report their information.

Common-law marriage

If a couple lives together and has not been formally married but meets the criteria in their state for a common-law marriage, they should be reported as married on the FAFSA. If the state doesn't consider their situation to be a common-law marriage, then they aren't married; a dependent student would follow the rules for divorce to determine which parent's information to report. Check with the appropriate state agency concerning the definition of a common-law marriage.

HEA Sec. 475(f)

STEP 5

Questions 84 and 95 Dislocated worker and independent student household size

Independent student household size example

Eddy is an independent student. He was married, but now he and his wife have separated. He's paying child support, but it isn't enough to provide more than half his children's support, so he can't include his children in his household size. Eddy's nephew Chavo lives with him and gets more than half of his support from Eddy (and will do so for the award year), so he can be counted in Eddy's household size, which is two.

Having just turned 24, Chavo is also independent, and his household size is one.

Not everyone who receives unemployment benefits will meet the definition of dislocated worker. For example, in general those who quit their jobs are not considered dislocated workers, even if they are receiving unemployment benefits.

You are not required to verify the answer to this question. If you choose to verify it, documentation can include, as appropriate to the category, a letter or a layoff or termination notice from the employer, unemployment insurance (UI) system verification, tax returns, a business license, or newspaper articles. You may also use documents from the state workforce agency or a "one-stop career center," though they are not required to provide you such documentation and a person may meet the dislocated worker definition without going to the workforce investment system for services. Absent all other evidence, self-certification will suffice, such as a statement signed by the person affirming that he meets the definition of dislocated worker.

Information from the workforce investment system. The local workforce investment system and state UI agency may support financial aid administrators by:

- providing general information to dislocated workers;
- providing general information to financial aid administrators, such as the WIA definition of dislocated workers and appropriate samples of documentation that financial aid offices can request from an individual to verify dislocated worker status;
- providing specific information to dislocated workers. A person can request documentation from the career center or other appropriate office that he is receiving dislocated worker services through the workforce investment system. That office can give the documentation to him, or at his request it may (but is not obligated to) give the documentation directly to the college.

If you must determine if someone is a dislocated worker, you have sole responsibility and must make the determination regardless of whether the person has proof of dislocated worker status—or is receiving dislocated worker services—from the workforce investment system.

STEP FIVE: INDEPENDENT STUDENT DATA

Purpose: Questions 95–102 collect information about independent students. Only students who answered "Yes" to one or more questions in Step Three complete this step.

■ **Student's household size (95).** The following persons are included in the household size of an independent student:

- **The student and his or her spouse**, unless the spouse has died or is not living in the household due to separation or divorce.
- **The student's children**, regardless of where they live, if they will receive more than half of their support from the student from July

1, 2014, through June 30, 2015. This includes the student's unborn children who will be born during the award year and will receive more than half their support from the student from birth to the end of the award year. Foster children do not count in household size.

→ **Other persons** who live with and receive more than half their support from the student and will receive more than half support for the entire award year. For FAFSAs submitted after the start of the year, see the relevant paragraph and example about legal dependents on page 25.

■ **Number in college (96).** The student is **always** included in the number in college. Also included are those in the household size who are or will be enrolled at least half time during the award year in a degree or certificate program at a Title IV-eligible school and who can reasonably be expected to receive aid from the family for their education. The definition of half-time enrollment for this question must meet the federal requirements even if the school defines half time differently.

■ **Receipt of means-tested federal benefits (97–101).** This is an alternative for the tax return requirement of the simplified needs and automatic zero EFC tests.

■ **Dislocated worker (102).** See the explanation of Question 84 earlier.

STEP SIX: SCHOOL INFORMATION

Purpose: These items collect information about which colleges the student wants to receive his FAFSA information. For a college to be able to receive his data, the student must list the college's federal school code (not the OPE ID) or enter its complete name, address, city, and state. There is a federal school code search on FAFSA on the Web (www.fafsa.gov), and the entire list of school codes is available in portable document format (PDF) and Excel on the IFAP site (www.ifap.ed.gov).

For each school the student indicates whether he expects to live on or off campus or with his parents. This information is not used to calculate his EFC, but it is useful to schools for determining the cost of attendance.

The student can list up to four schools on the paper FAFSA and 10 on the Web (at least one is required). If he wants his information to be available to more schools, he can use his SAR or FOTW to change the schools listed. The CPS will send data to no more than 10 (four with the paper FAFSA) schools at a time. *Chapter 4* tells how a student can add or change schools.

STEP SEVEN: SIGNATURE(S)

Purpose: By signing the FAFSA, the applicant is assuming responsibility for the accuracy of the information reported.

■ **Date and signature(s) (104–105).** In addition to certifying that the data on the FAFSA are correct, the student is also signing a Statement of Educational Purpose, which is required to receive FSA funds. Among other things, the student agrees to spend FSA funds only on

STEPS 6–7

Questions 96–104
Number in college,
federal benefits,
school data, and date

Copies of signed documents

While you will often receive documents with original or “wet” signatures from the student (e.g., a paper FAFSA that the student has worked on and signed while in your office), there might be an occasion where the student gives you a copy or sends you a fax of a signed document. Except for a copied FAFSA, other imaged versions of the original signed document are valid and may be kept in the student's file.

STEP 7

Questions 105–108 Signatures and preparer's data

Assistance in preparation of the FAFSA

HEA Sec. 483(d)

educational expenses and affirms that he is not in default on a federal loan or does not owe a grant overpayment. If he is dependent, one parent whose information is reported on the FAFSA must also sign.

Substitutes for a parent's signature. While parent information must be provided for a dependent student, a high school counselor or a college aid administrator may sign the application in place of a parent if:

- the parents are not currently in the United States and cannot be contacted by normal means,
- the current address of the parents is not known, or
- the parents have been determined physically or mentally incapable of providing a signature.

The signer must provide her title in parentheses next to her signature and briefly state the reason (only one is needed) why she is signing for the parents. The signer assures a minimum level of credibility in the data submitted; however, she does not assume any responsibility or liability in this process. If the counselor or FAA finds any inaccuracies in the information reported, she should direct the student to send the SAR through the normal correction process or, if she is an FAA, she can submit corrections through FAA Access. Because this proxy signing isn't possible electronically, it must be done on a paper FAFSA or on the signature page/FAFSA summary used with FAA Access.

- **Preparer's ID and signature (106–108).** Only persons who are paid a fee to help the student fill out the application are considered FAFSA preparers. Those who advise students without charging a fee, such as high school counselors and FAAs, are not preparers. A preparer must include his name, his company's name (if applicable), his address or the company address, and either his SSN or the company employer identification number (EIN, as assigned by the IRS). With the paper FAFSA, the preparer must also sign and date the form.

Preparers have other obligations. In their advertising and their initial contact with a consumer, including via the Internet or phone, they must clearly inform him that the FAFSA is free and can be completed electronically or on paper without professional help. If they have a website for their service, it must link to FAFSA on the Web. They may not use any form other than the FAFSA for the purpose of applying for Title IV aid.

A preparer who knowingly falsifies information on the application is subject to the same penalties as an applicant.

Signatures for electronic applications

FAA Access to CPS Online

If you enter a student's original application through FAA Access to CPS Online, you must obtain original or "wet" signatures on the printed signature page/FAFSA summary or on a completed paper FAFSA, and you must keep the signed document in the school files even if the student doesn't receive federal student aid or attend your school. You may electronically store the original document, but you may not accept faxed or copied signatures from the student for the FAFSA. (You have more latitude regarding verification documents and changes to the application; see *Chapter 4*.)

FAFSA on the Web

Students who have PINs can electronically sign their FAFSA on the Web. Parents who have a PIN can also electronically sign. Parents and students will have to provide their name ID (first two letters of their last name), SSN, and date of birth with the PIN. Parents also must provide their child's name ID, SSN, and DOB in order to match the parent's signature record with the student's FAFSA.

Alternately, students can print the signature page, sign it, and mail it to the processor. If the processor doesn't receive the signature page within 14 calendar days of receiving the application data, it will mail a "reject 16" SAR to the student ("Missing student signature on Web application"), which the student can sign and return. If the student chooses not to print and send a signature page, or if no printer was available, the processor won't wait 14 days to print a rejected SAR for the student but will generate one within 72 hours of receiving the data.

If the student indicated on an electronic FAFSA that she would print, sign, and mail in a signature page but the processor has not received the signature page, the student can call FAFSA on the Web customer service and have her record released from the FAFSA hold file. Because no signature page has been received, the FAFSA processor will produce a rejected SAR and mail it to the student to sign and return. The processor will accept the first signature document it receives—either the signed signature page or the signed SAR.

Schools and states receive ISIRs for rejected records. A student's reject 16 SAR and her ISIR will reflect the data that she provided on the application; however, the CPS won't calculate an official EFC for the student (an unofficial EFC that cannot be used to award or disburse aid will appear on the ISIR) or do any database matches until it receives a signed signature page, a signed SAR, or an electronic signature. A school can also collect the required "wet" signatures at the school, either on the SAR or a document that has the required certification statements (FAA Access allows schools to print out a signature page for the ISIR). The school can then submit an electronic correction showing that the signatures have been provided.

Renewal FAFSA on the Web

To access their Renewal FAFSA on the Web, students must provide their PIN and other identifiers. In addition to allowing access to application data over the Internet, the PIN is a legal equivalent to a manual or "wet" signature for FSA purposes. For an independent student, no other signatures are needed, and the application will be processed within 72 hours.

Parents of dependent students can sign with their own PIN. Otherwise, the student can print a signature page for the parent. If the student indicates that no printer was available, the CPS will generate a "reject 15" ("Missing parent signature on FAFSA or SAR") output document for the student within 72 hours. If the student indicated she would send in a signature page, the processor will wait up to 14 calendar days to receive the signed page. If it doesn't receive a signed signature page after 14 days, it will generate a reject 15 SAR and send it to the student. The student must have a parent sign the SAR and must send it back to the address on the SAR. For reject 15 records, a student's SAR and ISIR will reflect the data provided on the application, but the processor won't calculate an EFC for the student until it receives the parent's electronic signature or the signed SAR or signature page.

Signature requirements for changes made after the FAFSA is filed will be discussed in *Chapter 4*.

Signature Requirements: Application and Verification for All FSA Programs			
	<i>Application (FAFSA, FAFSA on the Web, FAA Access to CPS Online)</i>	<i>IRS Documentation (Transcript or other form submitted for verification)</i>	<i>Verification Document</i>
<i>Student</i>	Must sign statement that data are accurate and other conditions are met (on paper FAFSA, Web summary, or signature page or by using PIN).	IRS Data Retrieval Tool (DRT) or tax return transcript (does not need to be signed). In rare instances when the tax return is used, it must be signed by the student (or spouse), or the tax preparer must provide his name and SSN, EIN, or PTIN.	Must sign documents used to verify FAFSA data.
<i>Parent(s) (if student is dependent)</i>	One parent must sign statement that data are accurate (on paper FAFSA, Web summary, or signature page or by using PIN).	DRT or tax return transcript (which does not need to be signed). In rare instances when the tax return is used, it must be signed by one parent, or the tax preparer must provide his name and SSN, EIN, or PTIN.	One parent must sign documents used to verify FAFSA data.
<i>Aid Administrator</i>	Must certify if overriding dependency status or exercising PJ (can't be done on FAFSA on the Web).		
Signature Requirements for Changes*			
	<i>Changes via SAR or Corrections on the Web</i>	<i>Changes submitted via FAA Access</i>	<i>Professional Judgment via FAA Access</i>
<i>Student</i>	Must sign corrections statement on the SAR; on the Web the PIN serves as the student's signature.		
<i>Parent(s) (if student is dependent)</i>	One parent must sign the corrections statement on the SAR. If parent data are changed on the Web, a parent must sign with PIN or print and sign signature page.		
<i>Aid Administrator</i>		School must have signed documentation from student and parent.	Must certify for PJ/FAA adjustments or dependency override.

* These requirements apply to any submission of changes to the Central Processing System, whether required by regulation (for Pell Grant recipients or corrections to data match items) or at the discretion of the financial aid administrator (for Campus-Based aid and Stafford Loans).